RATING REPORT

Zephyr Power Limited (ZPL)

REPORT DATE:
February 02, 2023

RATING ANALYST:
M. Amin Hamdani
amin.hamdani@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A+	A-1	A	A-2
Rating Date	*Feb 02, 2023*		*Dec 31, 2021*	
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2005 as Private Limited Concern	**External Auditors:** PwC |A. F. Ferguson & Co
Public Unlisted Company (Conversion in 2021)	**Chief Executive Officer:** Mr. Kumayl Khaleeli

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (Aug, 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Zephyr Power Limited (ZPL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Zephyr Power Limited was incorporated as a private limited company in July 2005, and has been recently converted into public unlisted company in June 2021. The principal activity of the company is to build, own and operate wind power plant with a net capacity of 50MW in Gharo area, located in Thatta, Sindh.

Profile of CEO

Mr. Khaleeli has over 10 years of institutional investment management and investment banking experience, along with over 10 years of experience in project acquisition, development and finance fields in the renewable energy sector. He holds a B.A. from Bates College and an M.B.A. from The Fuqua School of Business at Duke University.

Corporate Profile: Incorporated as a private limited company in 2005 with recent conversion into a public unlisted company in June 2021, Zephyr Power Limited ("Company") principally operates a Wind Independent Power Project (IPP) with 25 Wind Turbine Generators (WTGs) located in Gharo, Thatta, Sindh. The IPP interconnection is maintained and operated by the National Transmission Despatch Company (NTDC).

The Company has signed an Energy Purchase Agreement (EPA) with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G). The EPA is based on the 2006 Renewable Energy Policy and the 2015 Upfront Tariff as awarded by the National Electric Power Regulatory Authority (NEPRA).

The Company has a Debt: Equity financial structure of 75:25. Both equity and debt structures encapsulate ~ 50:50 compositions from local and foreign financing. The debt financing is from Netherlandse Financierings-Maatachappij voor Ontwikkelingslanden N.V (FMO) and British International Investment (BII) (formerly CDC Group PLC (CDC)) at 3M LIBOR plus 4.75% spread, while local financing is utilized under Rupee Facility Agreement with United Bank Limited (UBL) at 3M KIBOR plus 3.0% spread.

Rating Drivers

Strong sponsor profile

Assigned ratings continue to draw comfort from strong sponsor profile which comprises foreign investment by a Development Finance Institution (DFI) wholly owned by UK Government and experienced local equity shareholders.

Operating performance improved as output produced increases in FY22

The IPP has been designed to exceed the 35% base net plant capacity factor as defined under the 2015 Upfront Tariff and as awarded to the Company by NEPRA on dated May 13, 2016. Due to variable nature of the wind resource the generation output of the IPP will vary based on the availability and quality of the wind resource. Due to better wind resource in FY22, overall production of the Company increased to 193,180 MWH compared to 149,345 MWH in FY21. Likewise, the average capacity factor and availability improved to 46.86% and 98.73% during FY22. (FY21: 37.16% & 99.05%).

Long-term Energy Purchase Agreement (EPA) with CPPA-G alleviates off-take risk

The EPA with CPPA-G is for twenty years commencing from the Commercial Operations Date (COD) dated March 28, 2019. Revenue measurements are in accordance with the mechanism stipulated in EPA at the quarterly tariff rates approved by National Electric Power Regulatory Authority (NEPRA). Revenues are recognized as per EPA on the basis of Net Delivered Energy and Non Project Missed Volume (NPMV) in case the network is not available to evacuate power.

Revenue from CPPA-G is invoiced on a monthly basis as per tariff structure, and any differences in amounts are re-submitted. In case of delayed payments, interest is recognized on an accrual basis at 3M KIBOR plus 2% per annum based on 365 days per year convention. Ratings also draw comfort from payments being secured under guarantee issued by the Government of Pakistan (GoP).

Minimal operational risk given O&M contractor having track record of international experience

The Company has entered into short term warranty period (2 years) and, thereafter, long term period (8 years) O&M contracts with Siemens Gamesa Renewable Energy Technology (China) Co. Ltd (formerly Gamesa Wind (Tianjin) Co. Ltd.). The O&M contractor exhibits track record of introducing wind power to new markets as per market demands, and operates in Asia since 1980's. The current Long Term Operations and Maintenance (LT-O&M) Contract has a term of 8 years. As per agreed terms, the O&M contractor has guaranteed maintenance of 98% plant availability over the term of the Contract.

Satisfactory profitability indicators

FY22 was the third full year of operations since commercial operations started on March 2019. Due to better wind resource availability, the Company's energy production has increased by 23% Y/Y which was previously declined in FY21. Consequently, net revenue rebounded to FY20 levels. With the increase in topline, gross margins of the Company has rebounded and came back to FY20 levels. On the cost front, O&M expenses has increased during FY22, however, the asset management expenses has declined notably.

Sound liquidity profile with adequate debt coverage

Funds from Operations (FFO) has increased during FY22 on account of rebound in profitability, resulting in improvement of FFO to Total Debt and FFO to Long Term Debt. Liquidity profile of the Company remained sound during the period under review. Internal cash remains adequate for working capital management, providing coverage for payment delays from CPPA-G of up to 6 - 8 months. However, any payment delays from CPPA-G beyond that may build some liquidity pressures on the Company. For now, CPPA-G continues to make payments within manageable timeframe. Long Debt Service Coverage remained adequate. Overall liquidity indicators considered strong from the ratings perspective while maintaining debt coverage at the same level is important.

Improvement in capitalization indictors on a timeline basis

Equity base of the Company has increased during FY22 and 1QFY23 with the absence of dividend payments and repayment of sponsor's loan. Debt profile encapsulated only long-term financings as the Company managed to meet its working capital requirement mainly through internal cash generation. Capitalization indicators including gearing and leverage depicted improvement at end FY22 and end 1QFY23. With projected profitability and minimal capex going forward, capitalization indicators are expected to improve further over the rating horizon.

ISSUE/ISSUER RATING SCALE & DEFINITION Annexure I

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Annexure III

Name of Rated Entity	Zephyr Power Ltd.
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
02/02/2023	A+	A-1	Stable	Upgraded
31/12/2021	A	A-2	Stable	Reaffirmed
26/11/2020	A	A-2	Stable	Upgraded
26/08/2019	A-	A-2	Stable	Reaffirmed
16/08/2017	A-	A-2	Stable	Initial